German parliament approves health reform

Dietmar Henning, Lena Sokoll
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Last Friday, the German parliament passed "Health Reform 2011" into law. This paves the way for a two-tier health system and the privatization of the statutory health insurance scheme. The core of the reform is the introduction of unlimited capitation charges, or additional lump-sum fees per individual. The government has avoided using the term capitation because it is aware of its unpopularity.

This latest health care reform places an extra burden on working people with low and medium incomes in favour of the employers and private health insurance companies. Firstly, statutory health insurance premiums will rise next year from 14.9 to 15.5 percent of gross wages, with employees paying 8.2 percent. Employers' health insurance contributions are being frozen at the level of 7.3 percent and future cost increases will be paid solely by employees.

The increase in the contribution rate means that employees earning a gross monthly salary of €1,000 will in future pay €82 instead of €79, an increase of €3 in the cost of statutory health insurance. Accordingly, those earning €2,000 or €3,000 gross per month will pay an extra €6 or €9 each month. However, no contributions are levied on incomes above the upper threshold, which was decreased slightly from €3,750 to €3,712.50, meaning the better off pay proportionally less.

Since it is assumed that the contributions will not cover the actual costs of health care, the health insurance schemes will have to levy so-called additional contributions. In reality, this represents the introduction of a capitation system, which is rejected by a majority of the population. At least since the general election in 2005, calling for a capitation system guaranteed an election defeat.

Since these additional contributions are paid to the health insurance scheme as lump sums regardless of actual income, low and middle-income earners will be charged much more proportionally than the better off. The law that was passed also permits a later expansion of the capitation principle, and there would be no upper limit for the actual size of such additional contributions.

Some health insurance operators have already announced that they will require additional contributions in 2011 or will be increasing contributions in 2010. One association representing health insurance companies covering 24 million people justified this with reference to the agreed changes to the health care reforms put forward by the government at the end of October.

Under these changes, approximately 150,000 physicians contracted to the statutory health insurance system will receive an additional €120 million on top of the already scheduled fees increase of €1 billion; the hospitals will get €400 million more and dentists about €27 million. This additional €547 million will have to be raised by the health insurance companies—in other words, by individual contributors by way of capitation charges.

To blunt the criticism regarding the anti-social policies of the government, Health Minister Philippe Rösler (Free Democratic Party, FDP) pointed to the proposed "social compensation" that is supposed to relieve low-income earners. But this scheme is largely cosmetic: If the "average additional contribution" is more than 2 percent of gross income, the individual would receive the difference as a social compensation funded through the tax system. Thus, if the average additional contribution amounts to €20, a person with a gross monthly income below €1,000 would receive compensation.

The trick here lies in the word "average". For individual members of the insurance scheme the additional contribution could well be above the 2 percent level if their insurance operator requires a contribution that is above the overall average of the other funds. In addition, the social compensation will be financed via the tax system and is therefore subject to any government financial constraints.

Representatives of the private health insurance companies are very satisfied with the changes, writing on the PKV web site pkv-private-krankenversicherung.net: “The winner of the 2011 health care reform is clearly private health insurance.” High earners can now more easily switch to private health insurance; all that is required is proof of income above the limit for compulsory insurance for one calendar year. In the past, the proof of income needed to be provided for three consecutive years before an exemption from compulsory insurance was permitted and a person could change to private health insurance. The monthly limit for compulsory insurance will also be reduced from the current €4,162.50 to €4,125 gross income.

“Since the private health insurance companies will not accept the chronically ill or elderly patients, or only if a considerable additional premium is paid”, according to the PKV web site, individuals who would tend to “drive up costs” would remain in the statutory health insurance scheme, while “low cost” patients could switch to private health insurance, making private health insurance “the clear winner of health reform 2011.”

The loser can also be clearly identified: the 70 million insured under the statutory health scheme. The Federal Insurance Office expects to face a deficit next year of at least €11 billion, which must then be recouped from workers through capitation charges.

In the long term, all the experts believe that health care costs will rise, as will capitation charges. This is also what the federal government has been explicitly seeking. As Health Minister Rösler commented last week in the parliamentary debate: “The coalition wants to get out of the planned economy.”

For Rösler and the present government, a statutory health insurance system based on costs graduated by income and paid for by employers and employees in equal parts—statutes that actually go back to the social policy of Chancellor Bismarck in the 19th century—is regarded as a socialist “planned economy”, which has no place in the free-market economy.

Rösler’s words represent a rather desperate attempt to justify this very unpopular government project. But there is some doubt as to whether he will succeed. Time and again, polls have shown that a clear majority of the population rejects the current health reform, as well as any plans to change the system towards one based on capitation and savings in the health sector to benefit the profits of the drug companies and those running health insurance.

It should be regarded as a warning, however, that following the health reform, Rösler has now announced the reform of the statutory old-age and chronic sickness care system. In comments last week in the *Hamburger Abendblatt,* he said plans are under way to do this in the coming year. Here again, the central project is to push through privatization by introducing care insurance: “We want to bring a funded insurance as a supplement to the existing statutory care system.”

Rösler complains that those who are now paying into the long-term care insurance system are “not saving money for themselves, but are paying for the generation that is currently benefiting”. This inter-generational financing of social insurance—since the pension system operates on the same principle—is a thorn in Rösler’s side. He wants to push for the social division of society in the social care sector too; by opposing the “planned economy” he seeks to open up new sources of profit for the private insurance companies.